

**SPECIAL PROVISIONS**

to the BASE CONTRACT FOR

SALE AND PURCHASE OF NATURAL GAS

(NAESB Standard 6.3.1, Dated April 19, 2002)

between

CALIFORNIA DEPARTMENT OF WATER RESOURCES

P. O. Box 219001  
3310 El Camino Avenue  
Sacramento, CA 95821  
("DWR")

and

WILLIAMS ENERGY MARKETING AND TRADING COMPANY

One Williams Center  
Tulsa, OK 74172  
("Williams ")

Dated: November 11, 2002

The parties agree to amend the General Terms and Conditions of the Base Contract as follows:

1. The penultimate sentence of Section 1.2 **Written Transaction Procedure** shall be amended as follows:

"EDI" shall be deleted.

2. Section 2.15 shall be deleted.

3. The following shall be added immediately following Section 2.29:

2.30. "Buyer" shall mean the purchaser of Gas in a Transaction formed pursuant to this Base Contract.

- 2.31. “Buyer Replacement Agreement” means any agreement identical to this Base Contract (including any Transactions hereunder) between Williams and a Qualified Electrical Corporation, excluding provisions relating to DWR’s status as a governmental agency or to the original start date(s) of this Base Contract, and together with such changes as Sellers and such Qualified Electrical Corporation may agree.
- 2.32. "Fund" shall mean Department of Water Resources Electric Power Fund established by Section 80200 of the Water Code of the State of California (the “Water Code”).
- 2.33. “Qualified Electric Corporation” means an electrical corporation as defined by AB 1X, codified at California Water Code Section 80100 et seq (the “Act”), whose long-term unsecured senior debt on the effective date of any Buyer Replacement Agreement is rated BBB or better by S&P and Baa2 or better by Moody’s and is not on negative outlook or Credit Watch from either rating agency; provided that with the exception of San Diego Gas and Electric Company, Southern California Edison Company and Pacific gas and Electric Company, no electrical corporation shall be a Qualified Electrical Corporation without the prior written agreement of Williams.
- 2.34. "Seller" shall mean the seller of Gas in a Transaction formed pursuant to this Base Contract.
- 2.35. "Transaction" shall mean a purchase and sale transaction formed pursuant to Section 1 for a particular delivery period.
- 2.36. “Trust Estate” means all revenues received by Buyer under any obligation entered into, and rights to receive the same, and moneys on deposit in the Fund and income or revenue derived from the investment thereof.
4. The following sentence shall be added immediately following the last sentence of Section 8.3:
- However, DWR's obligation to indemnify Williams pursuant to the provisions of this Section 8.3 shall apply only to the extent expressly permitted by law.
5. Section 10.3.1 shall be deleted and replaced in its entirety with the following:
- 10.3.1 (a) Upon termination of this Base Contract and the Transactions hereunder as the result of an Event of Default, the Non-Defaulting Party shall be entitled to a payment (the "Termination Payment") which shall be calculated as of the Early Termination Date in accordance with (b) below. As soon as practicable after the Early Termination Date, the Non-Defaulting Party shall give notice to the Defaulting Party of the amount of the Termination Payment, if any, due to the

Non-Defaulting Party. The notice shall include a written statement explaining in reasonable detail the calculation of such amount. Termination Payment is to be made no later than thirty (30) days after receipt of written notice of an Early Termination Date, except in the event that DWR is the Defaulting Party, in which case the Termination Payment is to be one hundred eighty (180) days after receipt of written notice of an Early Termination Date. Interest on any unpaid portion of the Net Settlement Amount shall accrue from the date due until the date of payment at a rate equal to the lower of (i) the then effective prime rate of interest published under "Money Rates" by the Wall Street Journal, plus two percent per annum; or (ii) the maximum applicable lawful interest rate.

Notwithstanding Section 7.4 hereof, if the Defaulting Party disagrees with the calculation of the Termination Payment and the parties cannot otherwise resolve their differences, pending resolution of the dispute, the Defaulting Party shall pay the full amount of the Termination Payment calculated by the Non-Defaulting Party in accordance with the timetable as provided above.

(b) The Non-Defaulting Party shall calculate the Termination Payment as follows:

The Termination Payment, if any, shall be (i) in the case Buyer is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) Market Value, and (B) Contract Value, or (ii) in the case Seller is the Non-Defaulting Party, the present value of the positive difference, if any, of (A) Contract Value, and (B) Market Value, in each case using the Present Value Rate as of the time of termination (to take account of the period between the time notice of termination was effective and when such amount would have otherwise been due pursuant to the relevant transaction). The "Present Value Rate" shall mean the sum of 0.50% plus the yield reported on page "USD" of the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in United States government securities) at 11:00 a.m. (New York City, New York time) for the United States government securities having a maturity that matches the average remaining term of this Agreement.

For purposes of this Section 10.3.1, "Contract Value" means the amount of Gas remaining to be delivered or purchased under a transaction multiplied by the Contract Price, and "Market Value" means the amount of Gas remaining to be delivered or purchased under a Transaction multiplied by the market price for a similar transaction at the Delivery Point determined by the Non-Defaulting Party in a commercially reasonable manner. To ascertain Market Value, the Non-Defaulting Party may consider, among other valuations, any or all of the settlement prices of NYMEX Gas futures contracts, quotations from leading dealers in energy swap contracts or physical gas trading markets, similar sales or purchases and any bona fide third party offers, all adjusted for the length of the term and the difference in transportation costs. A party shall not be required to

enter into a replacement transaction (s) in order to determine "Market Value". Any extensions(s) of the term of a transaction to which parties are not bound as of the Early Termination Date (including but not limited to "evergreen provisions") shall not be considered in determining Contract Values and Market Values.

(c) Notwithstanding the other provisions of this Base Contract, if the Non-Defaulting Party has the right to liquidate or terminate all obligations arising under the Transaction under the provisions of this Section 10 because of the circumstances listed in items (i) through (v) of Section 10.2, then this Base Contract and the Transactions hereunder shall automatically terminate, without notice, as if the Early Termination Date was the day immediately preceding the events listed in Section 10.2.

6. Section 10.4 shall be deleted.
7. For so long as DWR is a party to the Base Contract, Section 10.5 shall be deleted, provided, however that Section 10.5 shall be included in any Buyer Replacement Agreement as defined in Section 2.31.
8. The following shall be added immediately following Section 10.7:

10.8. DWR's obligation to make payments hereunder shall be limited solely to the Fund. Any liability of DWR arising in connection with this Base Contract or any claim based thereon or with respect thereto, including, but not limited to, any payment pursuant to Section 3.2 hereof arising as the result of any breach or event of default under this Base Contract, and any other payment obligation or liability of or judgment against DWR hereunder, shall be satisfied solely from the Fund. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA ARE OR MAY BE PLEDGED FOR ANY PAYMENT UNDER THIS BASE CONTRACT. Revenues and assets of the State Water Resources Development System shall not be liable for or available to make any payments or satisfy any obligation arising under this Base Contract.

9. The following shall be added immediately following Section 10.8:

10.9. In accordance with Section 80134 of the Water Code, DWR covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by DWR pursuant to this Base Contract. As provided in Section 80200 of the Water Code, while any obligations of DWR pursuant to this Base Contract remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of DWR and the California Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of the Seller under this Base Contract.

10. The following shall be added immediately following Section 14.11:

14.12. Seller has stated that, because of the administrative burden and delays associated with such requirements, it would not enter into this Base Contract if the provisions of the Government Code of California and the Public Contracts Code of California applicable to state contracts, including, but not limited to, advertising and competitive bidding requirements and prompt payment requirements would apply to or be required to be incorporated in this Base Contract. Accordingly, pursuant to Section 80014(b) of the Water Code, DWR has determined that it would be detrimental to accomplishing the purposes of Division 27 (commencing with Section 80000) of the Water Code to make such provisions applicable to this Base Contract and that such provisions and requirements are therefore not applicable to or incorporated in this Base Contract.

11. The following shall be added immediately following Section 14.12:

14.13. It is understood by the parties that, with respect to the DWR, only the following persons or such other persons as designated in writing by DWR shall be authorized to enter into any transaction, other than the 2002A Transaction, contemplated hereunder on behalf of DWR: (1) Garney Hargan; (2) Robert Grow; and (3) George Baldini.

12. The following shall be added immediately following Section 14.13:

14.14. It is understood by the parties that the California Department of Water Resources means the California Department of Water Resources, acting solely under the authority and powers created by AB1-X, codified as Sections 80000 through 80270 of the Water Code of California, **as amended**, and not under its powers and responsibilities with respect to the State Water Resources Development System.

13. The following shall be added immediately following Section 14.14:

14.15. Notwithstanding the foregoing limitations on assignment, at any time after January 1, 2003, the Seller shall, upon the written request of DWR, enter into one or more Buyer Replacement Agreements as may be agreed to by one or more Qualified Electric Corporations. This Base Contract and any Transactions hereunder shall terminate upon execution of a Buyer Replacement Agreement. The execution of the Buyer Replacement Agreement shall constitute a novation that shall relieve DWR of any liability or obligation arising after the date of termination of this Base Contract and Transactions hereunder. Such Replacement Agreement shall state that it is a Replacement Agreement within the meaning of the Agreement. The effectiveness of such Buyer Replacement Agreement shall be subject to the condition precedent that the California Public Utilities Commission shall have conducted a just and reasonable review under Section 451 of the Public Utilities Code with respect to such Buyer Replacement Agreement and shall have

issued an order determining that the charges under such Buyer Replacement Agreement are just and reasonable.

15. The following shall be added immediately following Section 14.15:

14.16. California law authorizes suits based on contract against the State or its agencies, and Buyer agrees that it will not assert any immunity it may have as a state agency against such lawsuits filed in California state court.

16. The following shall be added immediately following Section 14.16:

14.17. Payments by Buyer under this Base Contract shall constitute an operating expense of the Fund payable prior to all bonds, notes or other indebtedness secured by a pledge or assignment of the Trust Estate or payments to the general fund.

17. The following shall be added immediately following Section 14.17:

14.18. Buyer covenants that it will, at least annually, and more frequently as required, establish and revise revenue requirements sufficient, together with any moneys on deposit in the Fund, to provide for the timely payment of all obligations which it has incurred, including any payments required to be made by Buyer pursuant to this Base Contract. While any obligations of Buyer pursuant this Base Contract remain outstanding and not fully performed or discharged, the rights, powers, duties and existence of Buyer and the California Public Utilities Commission shall not be diminished or impaired in any manner that will affect adversely the interests and rights of Seller under this Base Contract.

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IN WITNESS WHEREOF, the Parties have caused this Special Provisions to The Base Contract for Sale and Purchase of Natural Gas to be duly executed as of the date first above written.

WILLIAMS ENERGY MARKETING &  
TRADING COMPANY

CALIFORNIA DEPARTMENT OF WATER  
RESOURCES separate and apart from its  
powers and responsibilities with respect to the  
State Water Resources Development System

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Acknowledgments**

State of Oklahoma       )  
                                      ) SS

County of Tulsa)

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ of Williams Energy Marketing & Trading Company, a Delaware corporation, known to me that he executed this Special Provisions to The Base Contract for Sale and Purchase of Natural Gas for the purposes and consideration herein expressed, in the capacity therein set forth and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL of office, this the \_\_\_\_\_ day of November, 2002.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

Commission Number: \_\_\_\_\_

[ S E A L ]

State of California       )  
                                      ) SS

County of \_\_\_\_\_ )

BEFORE ME, the undersigned authority, a notary public, on this day personally appeared \_\_\_\_\_, \_\_\_\_\_ of the California Department of Water Resources, a \_\_\_\_\_, known to me that he executed this Special Provisions to The Base Contract for Sale and Purchase of Natural Gas for the purposes and consideration therein expressed, in the capacity therein set forth and as the act and deed of said \_\_\_\_\_.

GIVEN UNDER MY HAND AND SEAL of office, this the \_\_\_\_\_ day of November, 2002.

\_\_\_\_\_  
Notary Public

My Commission Expires: \_\_\_\_\_

Commission Number: \_\_\_\_\_

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